



The Pakistan Credit Rating Agency Limited

Rating Report

Pak Qatar General Takaful Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
08-Feb-2023	A+ (ifs)	-	Stable	Maintain	-
31-Mar-2022	A+ (ifs)	-	Stable	Harmonize	-
24-Feb-2022	A	-	Stable	Maintain	-
24-Feb-2021	A	-	Stable	Maintain	-
25-Feb-2020	A	-	Stable	Maintain	-
28-Aug-2019	A	-	Stable	Maintain	-
27-Feb-2019	A	-	Stable	Maintain	-
06-Dec-2018	A	-	Stable	Maintain	-
27-Apr-2018	A	-	Stable	Maintain	-
29-Sep-2017	A	-	Stable	Maintain	-
28-Feb-2017	A	-	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

Pak-Qatar General Takaful Limited (PQGTL or the Company) is one of earliest dedicated takaful companies in Pakistan, possessing strong business acumen through its association with Qatar based financial institutions, while also being allied to its sister concern; Pak-Qatar Family Takaful. PQGTL rallied against its peers and established window takaful operators during the year in order to sustain its competitive position in the industry. Currently, the Company has stagnant market position in the wake of intense competition amongst dedicated takaful peers and window takaful operations of much established players in the industry. The management has devised a strategy under the new leadership to cater the growth moving forward. Efforts have been initiated to seek synergic benefits using cross selling through sister concern. High interest rates, however, could adversely impact the motor segment; traditionally the forte of the Company. Enhancement of bank business and induction of new sale force is also underway. The Company's digital platform is providing impetus to its customer base.

During 9MCY22, general insurance industry reported GPW of PKR~114bln for 9MCY22 (9MCY21: PKR~89bln), achieving a growth of ~28% YoY basis. Insurance penetration remained very modest as compared to neighboring markets, underdeveloped relative to its potential. Investment income has deteriorated to PKR ~8bln for 9MCY22 (9MCY21: PKR 9.45bln). Overall industry has earned profit after tax of PKR 7.45bln for 9MCY22 (9MCY21: PKR 9.9bln), owing to higher claims, lower investment income and imposition of super tax. Some major industry claims have resulted in slight increase in claim ratio, recent flood will further impact profitability of insurance companies in last quarter of CY22.

The rating is dependent on the management's ability to cohesively execute its business plan. Furthermore, improvement in market share and underwriting profitability are considered vital. Meanwhile, prudent management of premium receivables from corporate customers is essential. Also, implementation of real-time IT infrastructure along with an upgraded MIS should, among others, strengthen the claims management system.

Disclosure

Name of Rated Entity	Pak Qatar General Takaful Limited
Type of Relationship	Solicited
Purpose of the Rating	IFS Rating
Applicable Criteria	Methodology General Insurance Rating(Mar-22),Methodology Rating Modifiers(Jun-22)
Related Research	Sector Study General Insurance(May-22)
Rating Analysts	Behrooz Fareed behrooz.fareed@pacra.com +92-42-35869504



Profile

Legal Structure Pak Qatar General Takaful (PQGTL) is an unlisted public limited Company and is one of the earliest dedicated Takaful companies.

Background The Company started its operations in August 2007, providing risk coverages to all segments of general takaful. Head Office of the Company is located in Karachi, whilst having a strong presence in the Northern region.

Operations North Zone comprises of branches in Islamabad, Rawalpindi, Abbottabad and Peshawar, Central zone comprising branches in Lahore, Gujranwala, Faisalabad, Multan, & Sialkot while South zone consists of branches in Karachi, Hyderabad & Quetta.

Ownership

Ownership Structure There are two key beneficiary shareholders of the Company. H.E. Sheikh Ali Bin Abdullah Al-Thani (H.E. Ali) and Mr. Said Gul who directly and indirectly holds a lion's share of 41.8% and 48.3% respectively. Rest of the stake is held by few individuals and general public.

Stability Ownership of PQGTL has remained stable over the years with major shareholding lying with two key sponsors. The Company is a strategic investment of sponsors and is anticipated to remain stable in foreseeable future.

Business Acumen Sponsors of the Company are seasoned and celebrated businessmen with many profitable ventures in their portfolio. i.e Pak-Qatar Investment (Pvt) Ltd, Qatar International Islamic Bank and FWU AG, whose success is a testimony of excellent business acumen of sponsors and their ability to form and execute business strategies.

Financial Strength Sponsors of the Company enjoys impenetrable financial strength, having ventures in banks, asset management companies, takaful businesses and construction companies with all the financial muscles and intentions to support the Company in situation of distress which is evident through its ownership history.

Governance

Board Structure The Company has a nine member Board. Two members serve as executive director, one independent and rest are appointed as non-executive directors. The board has three committees in place: Audit Committee, Investment committee and Ethics, HR and Remuneration Committee.

Members' Profile His Excellency (H.E) Sheikh Ali is a member of the Royal Family of Qatar. He has been the chairman of Pak-Qatar General Takaful since its inception in year 2007. H.E is a prominent businessman in Qatar and currently, is the Chairman of Umm-Haish International, and Al-Jazeera Trading & Contracting. Earlier, he was the Chairman of Qatar International Islamic Bank. By qualification, he is a science graduate from the Portland State University, USA.

Board Effectiveness The annual board meeting of the Company is held in Qatar with an online MIS report being provided to the members enabling them to be updated with the progress of the Company. Board meeting minutes are maintained adequately.

Transparency The External Auditors of the Company, M/S EY Ford Rhodes Chartered Accountants gave an unqualified opinion on financial statements for the period ended Dec'21.

Management

Organizational Structure The Company has clearly defined organizational structure. There are two broad segments: i) insurance related activities (i.e., underwriting, claims and reinsurance) and ii) support services (i.e., finance internal audit, HR & Admin, and MIS). All seven department heads report directly to CEO.

Management Team Mr. Zahid Hussain Awan was recently appointed as the CEO of the Company. He has been associated with Pak-Qatar since 2007 and is a seasoned professional with over two decades of rich experience in banking industry of Qatar. He is supported by a team of professionals.

Effectiveness The Company has one general management committee and three specialized committees: Underwriting, Re-Takaful/Co-Takaful Committee, Claims Committee and Risk Management & Compliance Committee. Meeting of each committee is held quarterly and on need basis. Adequate minutes of meetings are maintained.

MIS Pak Qatar has developed its own software TIMS (Takaful Information and Management System). The new software is entirely web-based and has been running live since January 2014. The system ensures strong control environment, supporting centralized operations by allowing policy locking and posting at head office level. In addition, the Company has been progressing towards implementation of SAP, incorporating its S4 HANA module in its MIS.

Claim Management System PQGTL has a centralized claims management system with only data entry rights being available to branches, except for engineering segment. Claim reporting is done by branch who is attending the claim.

Investment Management Function A formal IPS has been drafted by the Company, accordingly approved by the BoD. As per the IPS, the structure of investment decision making is three-tiered – (i) Board Investment Committee (IC), (ii) Management Investment Committee (MIC), and supervised by (iii) Shariah Board.

Risk Management Framework In order to enhance the risk management structure, the Companies have an optimal treaty capacity with surplus arrangements, which are adequate in the initial years of operation. The Company has diversified its panel of reinsurers, boding well for its financial risk.

Business Risk

Industry Dynamics In terms of Gross Premium Written (GPW) general insurance industry has business of PKR ~114bln for 9MCY22 (9MCY21: PKR~89bln), achieving a growth of ~28% YoY basis. Insurance penetration remained very modest as compared to neighboring markets, underdeveloped relative to its potential. Investment income has deteriorated to PKR ~8bln for 9MCY22 (9MCY21: PKR 9.45bln). Overall industry has earned profit after tax of PKR 7.45bln for 9MCY22 (9MCY21: PKR 9.9bln), owing to higher claims, lower investment income and imposition of super tax. Some major industry claims have resulted in slight increase in claim ratio, recent flood will further impact profitability of insurance companies in last quarter of CY22.

Relative Position Pak Qatar General Takaful Limited possesses a market share of less than 1% as of period ended Sep'22.

Revenue PQGTL reported GPW of PKR 771mln for the period ended Sep-22 (9MCY21: PKR 644mln), depicting an increase of 19.6%, attributable to fire & property and motor segment. The Company has also ventured into accident & health insurance. Regarding segmental mix of the Company, Motor segment comprised 52% of total GPW, followed by fire & property (20%), accident and health insurance (12%), miscellaneous (9%) and Marine (7%).

Profitability The Company earned underwriting profit of PKR 16mln for 9MCY22 observing a fall of 62% on a YoY basis (9MCY21: PKR 42mln) owed to increase in Underwriting expenses increased by 56% to PKR 607mln for 9MCY22 (9MCY21: PKR 390mln). After incorporating investment income of PKR 64mln, the Company achieved net profitability of PKR 56mln for 9MCY22 (9MCY21: PKR 67mln).

Investment Performance Investments of Pak Qatar General Takaful has generated investment income of PKR 18.6mln in its PTF segment and PKR 45mln in SHF segment. Bank placements provided key returns of PKR 12mln in the PTF segment, whereas debt securities generated 45mln in SHF segment of the Company.

Sustainability Going forward, the Company mules to enhance its revenue base through diversification in segmental concentration particularly in health and marine segments, along-with maintenance of its primary motor revenue stream. Additionally, the Company also intends to capitalize on technological advancements.

Financial Risk

Claim Efficiency Pak Qatar General Takaful incurred claims expense of PKR 665mln for 9MCY22 (9MCY21: PKR 292mln). The Company has shown a growth in fire & property claims compared to last year. Claims outstanding days of the Company reduced to 214 days for 9MCY22 (9CY21: 303 days), attributed to higher claims.

Re-Insurance Pak Qatar General Takaful maintains re-takaful arrangements with well reputed reinsurance companies, e.g., Kuwait Re ('A-' by A.M Best), Saudi Re ('A3' by Moody's), Arab Re ('B+' by A.M Best), Tunis Re, Kenya Re and PRCL ('AA' by VIS).

Cashflows & Coverages Pak Qatar General Takaful has a sound liquidity coverage of 1.3x at 9MCY22 (9MCY21: 2.3x), decreased coverage can be attributable to increased provision for IBNR. The Company recorded an investment book of PKR 890mln (9MCY21: PKR 830mln) which is entirely liquid.

Capital Adequacy Pak Qatar General Takaful has an equity base of PKR 602mln for period ended Sep'22. The Company has compliant with the SECP's minimum capital requirements.



PKR Mln

Pak-Qatar General Takaful
Unlisted Public Limited

Sep-22 Dec-21 Dec-20 Dec-19
9M 12M 12M 12M

A BALANCE SHEET

1 Investments	890	886	705	598
2 Insurance Related Assets	794	488	330	373
3 Other Assets	509	502	312	333
4 Fixed Assets	58	61	82	99
5 Window Takaful Operations	-	-	-	-
Total Assets	2,251	1,937	1,429	1,403
1 Underwriting Provisions	293	331	187	208
2 Insurance Related Liabilities	841	513	416	407
3 Other Liabilities	501	517	239	139
4 Borrowings	15	18	32	-
5 Window Takaful Operations	-	-	-	-
Total Liabilities	1,650	1,379	874	754
Equity/Fund	601	558	555	649

B INCOME STATEMENTS

CONSOLIDATED INCOME STATEMENT

1 Gross Premium Written/Gross Contribution Written	771	1,032	602	701
2 Net Insurance Premium/Net Takaful Contribution	623	654	426	477
3 Underwriting Expenses	(607)	(640)	(435)	(486)
Underwriting Results	16	14	(9)	(9)
4 Investment Income	64	52	45	43
5 Other Income / (Expense)	0	2	7	(2)
Profit Before Tax	80	68	43	32
6 Taxes	(24)	(14)	2	(8)
Profit After Tax	56	54	45	24

PARTICIPANTS' TAKAFUL FUND - PTF

1 Gross Contribution Written	771	1,032	602	701
2 Net Takaful Contribution	275	297	186	203
3 Net Takaful Claims	(327)	(321)	(197)	(251)
4 Direct Expenses Including Re-Takaful Rebate Earned	38	43	34	43
Surplus Before Investment & Other Income/(Expense)	(14)	19	23	(5)
5 Investment Income	11	5	0	10
6 Other Income/(Expense)	-	(2)	3	(3)
Surplus for the Period	(3)	22	26	2

OPERATOR'S TAKAFUL FUND - OTF

1 Wakala Fee Income	348	357	240	274
2 Management, Commission & Other Acquisition Costs	(318)	(362)	(272)	(278)
Underwriting Income/(Loss)	30	(5)	(32)	(4)
3 Investment Income	53	47	45	34
4 Other Income/(Expense)	0	4	4	0
Profit Before tax	83	46	17	30
5 Taxes	(24)	(14)	2	(8)
Profit After tax	59	32	19	22

C RATIO ANALYSIS

1 Profitability				
Loss Ratio - Net Insurance & Takaful Claims / Net Insurance Premium or Takaful	52.6%	49.1%	46.2%	52.7%
Combined Ratio (Loss Ratio + Expense Ratio)	97.4%	97.9%	102.0%	101.9%
2 Investment Performance				
Investment Yield	9.6%	6.6%	6.9%	7.8%
3 Liquidity				
(Liquid Assets - Borrowings) / Outstanding Claims Including IBNR	1.3	2.3	2.3	2.1
4 Capital Adequacy				
Liquid Investments / Equity (Funds)	147.9%	159.0%	126.9%	92.1%

Insurer Financial Strength (IFS) Rating

Insurer Financial Strength (IFS) rating reflects forward-looking opinion on relative ability of an insurance company to meet policy holders and contractual obligations.

Scale	Definition
AAA (ifs)	Exceptionally Strong. Exceptionally Strong capacity to meet policy holders and contract obligations. Risk factors are minimal, and the impact of any adverse business and economic factors is expected to be extremely small.
AA++ (ifs) AA+ (ifs) AA (ifs)	Very Strong. Very Strong capacity to meet policy holders and contract obligations. Risk factors are very low, and the impact of any adverse business and economic factors is expected to be very small.
A++ (ifs) A+ (ifs) A (ifs)	Strong. Strong capacity to meet policy holders and contract obligations. Risk factors are low, and the impact of any adverse business and economic factors is expected to be small.
BBB++ (ifs) BBB+ (ifs) BBB (ifs)	Good. Good capacity to meet policy holders and contract obligations. Risk factors are moderate, and the impact of any adverse business and economic factors is expected to be manageable.
BB++ (ifs) BB+ (ifs) BB (ifs)	Modest. Modest capacity to meet policy holders and contract obligations. Though positive factors are present, risk factors are relatively high, and the impact of any adverse business and economic factors is expected to be significant.
B++ (ifs) B+ (ifs) B (ifs)	Weak. Weak capacity to meet policy holders and contract obligations. Risk factors are high, and the impact of any adverse business and economic factors is expected to be very significant.
CCC (ifs) CC (ifs) C (ifs)	Very Weak. Very weak capacity to meet policy holders and contract obligations. Risk factors are very high, and the impact of any adverse business and economic factors may lead to insolvency or liquidity impairment
D (ifs)	Distressed. Extremely weak capacity with limited liquid assets to meet policy holders and contract obligations, or subjected to some form of regulatory intervention or declared insolvent by the regulator.

<p>Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. ‘Stable’ outlook means a rating is not likely to change. ‘Positive’ means it may be raised. ‘Negative’ means it may be lowered. Where the trends have conflicting elements, the outlook may be described as ‘Developing’.</p>	<p>Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.</p>	<p>Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.</p>	<p>Withdrawn A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults., or/and f) PACRA finds it impractical to surveil the opinion due to lack of requisite information.</p>	<p>Harmonization A change in rating due to revision in applicable methodology or underlying scale.</p>
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Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s): General Insurance & Takaful Operator, Life Insurance & Family Takaful Operator.

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(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) Conflict of Interest

i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)

ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)

iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

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(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)

(4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)

(5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business

(6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)

(7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report | Clause 11-(A)(p).

(8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)

(9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)

(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)

(11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

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(12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA's opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity

(13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)

(14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)

(15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)

(16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)

(17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review

(18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)

(19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)

(20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)

(21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

Probability of Default

(22) PACRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA's transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA's Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(F-VII)

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